

**LAURENS-MARATHON
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14-15
Governmental Fund Financial Statements:	
Balance Sheet	C 16-17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 18
Statement of Revenues, Expenditures and Changes in Fund Balances	E 19-20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 21
Proprietary Fund Financial Statements:	
Statement of Revenues, Expenses and Changes in Fund Net Assets	G 22
Statement of Cash Flows	H 23
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	I 24
Statement of Changes in Fiduciary Net Assets	J 25
Notes to Financial Statements	26-35
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	36
Note to Required Supplementary Information - Budgetary Reporting	37
Schedule of Funding Progress for the Retiree Health Plan	38
Other Supplementary Information:	<u>Schedule</u>
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	1 39-40
Schedule of Changes in Fiduciary Net Assets	2 41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	3 42
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	43-44
Schedule of Findings	45-47

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Nancy Fuchs	President	2011
Terry Gunnarson	Vice President	2011
Matt Tate		2013
Michael Olson		2013
Bridget Bailey	(Resigned August, 2010)	
Dr. Brett Fehr		2011

School Officials

Iner Joelson	Superintendent
Susan Wenell	District Secretary/ Treasurer

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Financial Statement Preparation
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report

To the Board of Education of
Laurens-Marathon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Laurens-Marathon Community School District, Laurens, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of Laurens-Marathon Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

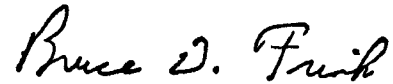
In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2012 on our consideration of Laurens-Marathon Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

202 Central Avenue East
P.O. Box 241
Clarion, IA 50525

Phone: (515) 532-6659
Fax: (515) 532-3677
bruce@frinkcpa.com

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Laurens-Marathon Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Bruce D. Frink".

BRUCE D. FRINK
Certified Public Accountant

March 26, 2012

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Laurens-Marathon Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,539,974 in fiscal year 2010 to \$3,993,995 in fiscal year 2011, while General Fund expenditures decreased from \$3,606,666 in fiscal year 2010 to \$3,577,242 in fiscal year 2011. The District's General Fund balance increased from \$283,364 in fiscal year 2010 to \$700,117 in fiscal year 2011.
- General Fund expenditures decreased 1%. The District continues to work to curtail discretionary spending as well as evaluating personnel needs.
- The District spent over \$373,000 on a one to one laptop initiative in order to give students exposure to more educational opportunities.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Laurens-Marathon Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Laurens-Marathon Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Laurens-Marathon Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information includes detailed information about the Student Activity Fund and a multiyear comparison of revenues and expenses.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Laurens-Marathon Community School District Annual Financial Report

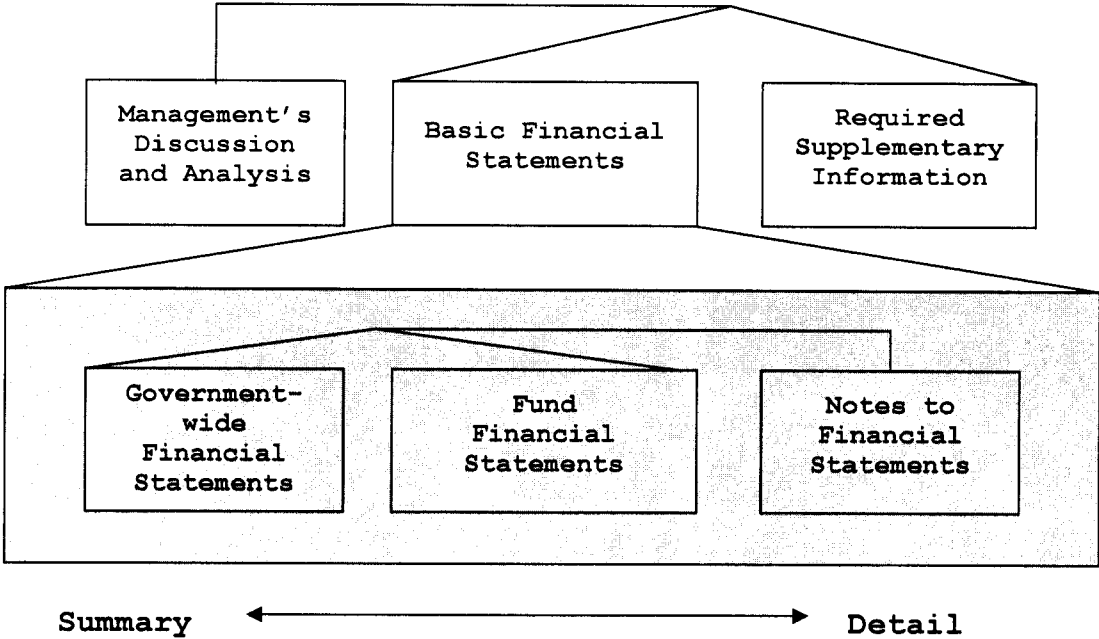


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Fund	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activity the District operates similar to private businesses: food services.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major" for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds and the Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

<p style="text-align: center;">Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)</p>							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Current assets	\$ 3,969	3,685	26	33	3,995	3,718	7.45%
Capital assets	2,620	2,341	10	12	2,630	2,353	11.77%
Total assets	6,589	6,026	36	45	6,625	6,071	9.13%
Current liabilities	2,259	2,480	-	-	2,259	2,480	-8.91%
Non-current liabilities	884	799	-	-	884	799	10.64%
Total liabilities	3,143	3,279	-	-	3,143	3,279	-4.15%
Net Assets							
Invested in capital assets, net of related debt	1,810	1,581	10	12	1,820	1,593	14.25%
Restricted	981	830	-	-	981	830	18.19%
Unrestricted	655	336	26	33	681	369	84.55%
Total net assets	\$ 3,446	2,747	36	45	3,482	2,792	24.71%

Total net assets increased over 25% primarily due to an increase in the General Fund of over \$400,000. Capital assets grew as the District invested over \$400,000 in technology this year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4 Changes in Net Assets (Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total District		Total Change	
2011	2010	2011	2010	2011	2010	2010-2011	
Revenues:							
Program revenues:							
Charges for service and sales	\$ 106	150	85	96	191	246	-22.36%
Operating grants, contructuions and restricted interest	1,111	879	108	95	1,219	974	25.15%
General revenues:							
Property tax	2,123	1,890	-	-	2,123	1,890	12.33%
Income surtax	111	157	-	-	111	157	-29.30%
Statewide sales, services and use tax	253	197	-	-	253	197	28.43%
Unrestricted state grants	1,187	1,026	-	-	1,187	1,026	15.69%
Unrestricted investment earnings	1	9	-	-	1	9	-88.89%
Other	107	57	-	-	107	57	87.72%
Total revenues	<u>4,999</u>	<u>4,365</u>	<u>193</u>	<u>191</u>	<u>5,192</u>	<u>4,556</u>	<u>13.96%</u>
Program expenses:							
Governmental activities:							
Instruction	2,621	2,582	-	-	2,621	2,582	1.51%
Support services	1,211	1,110	-	-	1,211	1,110	9.10%
Non-instructional programs	-	-	192	187	192	187	2.67%
Other expenses	<u>469</u>	<u>456</u>	<u>-</u>	<u>-</u>	<u>469</u>	<u>456</u>	<u>2.85%</u>
Total expenses	<u>4,301</u>	<u>4,148</u>	<u>192</u>	<u>187</u>	<u>4,493</u>	<u>4,335</u>	<u>3.64%</u>
Change in net assets	<u>\$ 698</u>	<u>217</u>	<u>1</u>	<u>4</u>	<u>699</u>	<u>221</u>	<u>216.29%</u>

Property tax and unrestricted state grants account for 64% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,999,828 and expenses were \$4,493,703 for the year ended June 30, 2011.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-2011	2011	2010	Change 2010-2011
Instruction	\$ 2,621	2,582	1.51%	1,585	1,724	-8.06%
Support services	1,211	1,110	9.10%	1,185	1,090	8.72%
Other expenses	<u>469</u>	<u>456</u>	<u>2.85%</u>	<u>315</u>	<u>305</u>	<u>3.28%</u>
Totals	<u>\$ 4,301</u>	<u>4,148</u>	<u>3.69%</u>	<u>3,085</u>	<u>3,119</u>	<u>-1.09%</u>

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$105,710.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$688,096.
- The net cost of governmental activities was financed with \$2,124,052 in property tax and \$1,186,855 in state foundation aid.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2011 were \$193,639 and expenses totaled \$192,332. The District's business type activities included the School Nutrition Fund. The revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Laurens-Marathon Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported combined fund balances of \$1,586,974, which is 47% more than last year's ending fund balance of \$1,079,989.

Governmental Fund Highlights

Several factors contributed to the small increase of the fund balance in the District's governmental funds.

- Continued collection of statewide sales, services and use tax.
- Careful cost containment measures in all areas of District finance.
- Spent over \$400,000 on technology.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$35,490 at June 30, 2010 to \$36,795 at June 30, 2011, representing an increase of approximately 4%.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

Actual revenues were greater than budgeted amounts by over \$105,000, primarily because of greater local revenues than projected.

Expenditures exceeded the amount budgeted in the other expenditures function. The District did not exceed its General Fund unspent authorized budget.

CAPITAL ASSETS AND ADMINISTRATION

Capital Assets

The District has invested more than \$2.6 million, net of accumulated depreciation, by the end of fiscal year 2011 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. Total depreciation expenses for the year exceeded \$221,000.

Figure A-6 Capital Assets, net of Depreciation (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Land	\$ 40	40	-	-	40	40	0.00%
Land improvements	3	3	-	-	3	3	0.00%
Buildings	2,083	2,131	-	-	2,083	2,131	-2.25%
Furniture and equipment	494	167	10	13	504	180	180.00%
Totals	<u>\$ 2,620</u>	<u>2,341</u>	<u>10</u>	<u>13</u>	<u>2,630</u>	<u>2,354</u>	<u>11.72%</u>

Long-Term Debt

The District has \$175,000 in general obligation bonds outstanding. This represents a decrease of \$170,000 from the previous year. The principal and interest on the bonds will be paid in full by June 1, 2012. The District makes principal and interest payments annually on these bonds using property tax dollars obtained through a debt service levy specifically for these bonds. The District issued \$515,000 of capital loan notes in August 2008 for improvements to the buildings. \$360,000 of principal remains to be paid. Interest rates range from 3.6% to 4.25%. The issue is being paid with proceeds of the Physical Plant and Equipment Levy. The District entered into a four year lease with Apple Inc. for laptop computers. A down payment of \$99,026 was made in July 2010. Three annual payments of \$100,216 remain. The interest rate is 4.779%.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- To offset the impact of declining enrollment, the State has provided a budget guarantee provision for districts. This budget guarantee provision is being phased out over a 10 year period. The District was on budget guarantee for fiscal year 2011 and will continue to be on budget guarantee for several years to come. Due to previous and continued declining enrollment, the amount of this reduction due to the phase out of the budget guarantee will likely grow over the next several years.
- Possible sharing opportunities with neighboring districts are being explored to bolster the District's financial position.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Susan Wenell, District Secretary/Treasurer and Business Manager, Laurens-Marathon Community School District, 300 West Garfield, Laurens, IA 50554.

Basic Financial Statements

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2011

	Governmental	Business Type Activities	
	Activities	School Nutrition	Total
Assets			
Cash	\$ 1,557,241	26,384	1,583,625
Receivables:			
Property tax:			
Current year	29,560	-	29,560
Succeeding year	2,129,856	-	2,129,856
Income surtax - succeeding year	125,154	-	125,154
Due from other governments	127,352	-	127,352
Capital assets, net of accumulated depreciation	2,619,537	10,415	2,629,952
Total assets	<u>6,588,700</u>	<u>36,799</u>	<u>6,625,499</u>
Liabilities			
Accounts payable	59,565	-	59,565
Accrued payroll	64,036	-	64,036
Accrued interest payable	1,669	-	1,669
Deferred revenue:			
Succeeding year property tax	2,129,856	-	2,129,856
Federal programs	3,578	-	3,578
Long-term liabilities:			
Portion due within one year:			
Capital loan notes payable	55,000	-	55,000
Capital lease payable	87,119	-	87,119
General obligation bonds payable	175,000	-	175,000
Portion due after one year:			
Net OPEB liability	75,515	-	75,515
Capital loan notes payable	305,000	-	305,000
Capital lease payable	186,928	-	186,928
Total liabilities	<u>3,143,266</u>	<u>-</u>	<u>3,143,266</u>
Net assets			
Invested in capital assets, net of related debt	1,810,490	10,415	1,820,905
Restricted for:			
Categorical funding	32,572	-	32,572
Student activities	67,648	-	67,648
Management levy	109,338	-	109,338
School infrastructure	356,665	-	356,665
Physical plant and equipment levy	234,980	-	234,980
Debt service	179,134	-	179,134
Unrestricted	654,607	26,384	680,991
Total net assets	<u>\$ 3,445,434</u>	<u>36,799</u>	<u>3,482,233</u>

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Operating Grants, Contributions			
	Charges for Service	and Restricted Interest	Governmental Activities	Business Type Activities
Expenses				Total
	\$ 2,621,490	105,710	930,852	(1,584,928)
				(1,584,928)
Functions/Programs:				
Governmental activities:				
Instruction				
Support services:				
Student services	177,059	-	-	-
Instructional staff services	151,383	-	(177,059)	(177,059)
Administration services	417,056	-	(151,383)	(151,383)
Operation and maintenance of plant services	350,846	-	(417,056)	(417,056)
Transportation services	114,748	-	(324,748)	(324,748)
			(114,748)	(114,748)
	1,211,092	-	(1,184,994)	(1,184,994)
Other expenditures:				
AEA flowthrough	152,230	-	152,230	-
Long-term debt services	588	-	-	-
Long-term debt interest	27,601	-	(588)	(588)
Facilities acquisition and construction	69,422	-	1,594	(26,007)
Depreciation (unallocated)*	218,948	-	264	(69,158)
			(218,948)	(218,948)
	468,789	-	154,088	(314,701)
Total governmental activities	4,301,371	105,710	1,111,038	(3,084,623)

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Operating Grants, Contributions			
	Charges for Service	and Restricted Interest	Governmental Activities	Business Type Activities
Expenses				Total
Business type activities:				
Non-instructional programs:				
Nutrition services	192,332	85,256	108,383	1,307
Total	<u>\$ 4,493,703</u>	<u>190,966</u>	<u>(3,084,623)</u>	<u>(3,083,316)</u>
General Revenues:				
Property tax levied for:				
General purposes			\$ 1,679,083	-
Management levy			124,963	-
Debt service			159,672	-
Capital outlay			160,334	-
Income surtax:				
General purposes			56,717	-
Capital outlay			54,171	-
Statewide sales, services and use tax			253,153	-
Unrestricted state grants			1,186,855	-
Unrestricted investment earnings			1,371	-
Other			106,761	-
Total general revenues			<u>3,783,080</u>	<u>-</u>
Change in net assets			698,457	1,307
Net assets beginning of year			2,746,977	35,492
Net assets end of year			<u>\$ 3,445,434</u>	<u>36,799</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2011

	General	Student Activity	Management Levy	Capital Projects				Debt Service	Total
				Statewide Sales Service and Use Tax	Physical Plant and Equipment Levy				
Liabilities:									
Accounts payable	\$ 52,438	-	-	-	7,127			-	59,565
Accrued payroll	64,036	-	-	-	-			-	64,036
Deferred revenue:									
Succeeding year property tax	1,656,875	-	150,000	-	160,529			162,452	2,129,856
Succeeding year income surtax	62,577	-	-	-	62,577			-	125,154
Federal programs	3,578	-	-	-	-			-	3,578
Total liabilities	1,839,504	-	150,000	-	230,233			162,452	2,382,189
Fund balances:									
Reserved for:									
Categorical funding	32,572	-	-	-	-			-	32,572
Student activities	-	67,648	-	-	-			-	67,648
Management levy	-	-	109,338	-	-			-	109,338
School infrastructure	-	-	-	356,665	-			-	356,665
Physical plant and equipment levy	-	-	-	-	172,403			-	172,403
Debt service	-	-	-	-	-			180,803	180,803
Unassigned	667,545	-	-	-	-			-	667,545
Total fund balances	700,117	67,648	109,338	356,665	172,403			180,803	1,586,974
Total liabilities and fund balances	\$ 2,539,621	67,648	259,338	356,665	402,636			343,255	3,969,163

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2011

Total fund balances of governmental funds (Exhibit C)	\$ 1,586,974
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Income surtax receivable at June 30, 2011 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	125,154
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the government funds.	2,619,537
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(1,669)
Long-term liabilities, including bonds payable, capital loan notes, lease payable and other postemployment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(884,562)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 3,445,434</u></u>

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2011

	Capital Projects					Debt Service	Total
	General	Student Activity	Management Levy	Statewide Sales Service and Use Tax	Physical Plant and Equipment Levy		
Revenues:							
Local sources:							
Local tax	\$ 1,736,585	-	124,963	253,153	214,627	160,334	2,489,662
Tuition	105,710	-	-	-	-	-	105,710
Other	124,714	226,369	25,653	264	288	1,556	378,844
State sources	1,768,379	-	68	-	89	38	1,768,574
Federal sources	258,607	-	-	-	-	-	258,607
Total revenues	3,993,995	226,369	150,684	253,417	215,004	161,928	5,001,397
Expenditures:							
Instruction:	2,295,691	212,612	76,234	-	-	-	2,584,537
Support services:							
Student services	177,059	-	-	-	-	-	177,059
Instructional staff services	151,383	-	-	-	-	-	151,383
Administration services	414,465	-	448	-	2,143	-	417,056
Operation and maintenance of plant services	279,058	-	42,782	-	29,006	-	350,846
Transportation services	107,356	-	4,876	77,921	2,516	-	192,669
	1,129,321	-	48,106	77,921	33,665	-	1,289,013

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2009

	Capital Projects					
	General	Student Activity	Management Levy	Statewide Sales Service and Use Tax	Physical Plant and Equipment Levy	Debt Service Total
Other expenditures:						
AEA flowthrough	152,230	-	-	-	-	152,230
Long-term debt:						
Services	-	-	-	-	-	588
Principal	-	-	-	-	-	324,026
Interest	-	-	-	-	-	28,182
Facilities acquisition and construction	-	-	-	410,779	78,130	-
	152,230	-	-	410,779	78,130	352,796
						993,935
Total expenditures	3,577,242	212,612	124,340	488,700	111,795	352,796
						4,867,485
Excess (deficiency) of revenues over (under) expenditures	416,753	13,757	26,344	(235,283)	103,209	(190,868)
						133,912
Other financing sources (uses)						
Capital lease proceeds	-	-	-	373,073	-	-
Operating transfer in	-	-	-	-	-	100,216
Operating transfer (out)	-	-	-	(100,216)	-	-
	-	-	-	272,857	-	100,216
						373,073
Net changes in fund balance	416,753	13,757	26,344	37,574	103,209	(90,652)
						506,985
Fund balances beginning of year	283,364	53,891	82,994	319,091	69,194	271,455
						1,079,989
Fund balances end of year	\$ 700,117	67,648	109,338	356,665	172,403	180,803
						1,586,974

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2011

Net change in fund balances - total governmental funds (Exhibit E) \$ 506,985

**Amounts reported for governmental activities in the Statements of
Activities are different because:**

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.

This represents the change from the prior fiscal year. (1,569)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 497,408	
Depreciation expense	<u>(218,948)</u>	278,460

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(373,073)	
Repaid	<u>324,026</u>	(49,047)

Postemployment benefits reported in the Statement of Activities do not require the use current financial resources and, therefore, are not reported as expenditures in the governmental funds. (36,953)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 581

Change in net assets of governmental activities (Exhibit B) \$ 698,457

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Fund

Year ended June 30, 2011

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for services	\$ 85,256
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	61,614
Benefits	11,596
Services	5,321
Supplies	111,566
Depreciation	<u>2,235</u>
Total operating expenses	<u>192,332</u>
Operating (loss)	<u>(107,076)</u>
Non-operating revenues:	
State sources	1,500
Federal sources	106,820
Interest income	<u>63</u>
	<u>108,383</u>
Changes in fund net assets	1,307
Net assets beginning of year	<u>35,492</u>
Net assets end of year	<u>\$ 36,799</u>

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2011

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 85,256
Cash payments to employees for services	(73,210)
Cash payments to suppliers for goods or services	(104,717)
Net cash (used by) operating activities	<u>(92,671)</u>
Cash flows from non-capital financing activities:	
State grants received	1,500
Federal grants received	94,650
Net cash provided by non-capital financing activities	<u>96,150</u>
Cash flows from investing activities:	
Interest on investments	<u>63</u>
Net (decrease) in cash and cash equivalents	3,542
Cash and cash equivalents beginning of year	<u>22,842</u>
Cash and cash equivalents end of year	<u>\$ 26,384</u>
Reconciliation of operating (loss) to net cash (used by) operating activities:	
Operating (loss)	\$ (107,076)
Adjustments to reconcile operating (loss) to net cash (used by) operating activities:	
Depreciation	2,235
Commodities used	12,170
	<u>\$ (92,671)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received federal commodities valued at \$12,170.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2011

	Private Purpose Trusts <u>Scholarships</u>
Assets	
Cash	\$ 223,781
Land	<u>73,980</u>
Total assets	<u>297,761</u>
Net Assets	
Reserved for specific purposes	<u>297,761</u>
Total net assets	<u>\$ 297,761</u>

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2011

	Private Purpose Trusts <u>Scholarships</u>
Additions:	
Local sources:	
Miscellaneous	\$ <u>27,537</u>
Total additions	<u>27,537</u>
Deductions:	
Support services:	
Other	<u>52,105</u>
Total deductions	<u>52,105</u>
Change in net assets	(24,568)
Net assets beginning of year	<u>322,329</u>
Net assets end of year	<u>\$ 297,761</u>

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

Laurens-Marathon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Laurens and Marathon, Iowa, and agricultural area in Palo Alto, Buena Vista and Pocahontas Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Laurens-Marathon Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Laurens-Marathon Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Pocahontas County Assessor Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund, Statewide Sales, Services and Use Tax is used to account for all resources used in the acquisition and construction of capital facilities.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Capital Projects Fund, Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are invested in interest bearing accounts. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years. No intangible assets were noted that exceeded the threshold amount.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Intangible assets	50,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Intangible assets	5-10 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied as well as unspent grant proceeds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2011.

Long-Term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, expenditures exceeded the amount budgeted in the other expenditures function. The District did not exceed its General Fund unspent authorized budget.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,205,964 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 40,213	-	-	40,213
Capital assets being depreciated:				
Land improvements	170,368	-	-	170,368
Buildings	3,338,910	8,708	-	3,347,618
Furniture and Equipment	1,413,965	488,700	-	1,902,665
Total capital assets being depreciated	4,923,243	497,408	-	5,420,651
Less accumulated depreciation for:				
Land improvements	166,948	180	-	167,128
Buildings	1,208,101	56,890	-	1,264,991
Furniture and Equipment	1,247,330	161,878	-	1,409,208
Total accumulated depreciation	2,622,379	218,948	-	2,841,327
Total capital assets being depreciated, net	2,300,864	278,460	-	2,579,324
Governmental activities, capital assets, net	\$ 2,341,077	278,460	-	2,619,537
Business type activities:				
Furniture and equipment	\$ 65,722	-	-	65,722
Less accumulated depreciation	53,072	2,235	-	55,307
Business type activities capital assets, net	\$ 12,650	(2,235)	-	10,415
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 218,948
Business Type activities:				
Food service operations				\$ 2,235

(4) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning Year	Additions	Reductions	Balance End of Year	Due Within One Year
Net OPEB Liability	\$ 38,562	36,953	-	75,515	-
General Obligation Bond	345,000	-	170,000	175,000	175,000
Capital Loan Notes	415,000	-	55,000	360,000	55,000
Capital Lease Payable	-	373,073	99,026	274,047	87,119
Total	\$798,562	410,026	324,026	884,562	317,119

Bonds Payable

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue as of April 30, 2008			
	Interest Rates	Principal	Interest	Total
2012	3.20%	\$175,000	5,600	180,600

Capital Loan Notes

The District issued \$515,000 of Capital Loan Notes on August 25, 2008 for remodeling of the existing facility. Details of the June 30, 2011 capital loan note indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2012	3.60%	\$ 55,000	14,423	69,423
2013	3.80	55,000	12,442	67,442
2014	4.00	60,000	10,353	70,353
2015	4.10	60,000	7,952	67,952
2016	4.20	65,000	5,493	70,493
2017	4.25	65,000	2,762	67,762
Total		\$360,000	53,425	413,425

Capital Lease Payable

The District entered into a four year lease with Apple Inc. for computers. The first payment of \$100,216 is due July, 2010 with 3 equal payments due each July thereafter. The interest rate is 4.779%.

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2012	4.779%	\$ 87,119	13,097	100,216
2013	4.779	91,283	8,933	100,216
2014	4.779	95,645	4,571	100,216
Total		\$274,047	26,601	300,648

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$146,839, \$150,849 and \$135,637 respectively, equal to the required contributions for each year.

(6) Risk Management

Laurens-Marathon Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$152,230 for year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 42 active members and 4 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$47,247
Interest on net OPEB obligation	964
Adjustment to annual required contribution	(3,953)
Annual OPEB cost	<u>44,258</u>
Contributions made	(7,305)
Increase in net OPEB obligation	<u>36,953</u>
Net OPEB obligation beginning of year	<u>38,562</u>
Net OPEB obligation end of year	<u>\$75,515</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$7,305 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$44,606	13.5%	\$38,562
June 30, 2011	\$44,258	16.5%	\$75,515

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$389,590, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$389,590. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,151,000 and the ratio of the UAAL to covered payroll was 18.1%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress presented as Required Supplementary Information, in the section following the Notes to Financial Statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the District.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects, Statewide Sales, Services and Use Tax	<u>\$100,216</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(10) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>Capital Projects, Physical Plant and Equipment Levy</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010, as previously reported	\$ -	69,194
Change in fund type classification per implementation of GASB Statement No. 54	<u>69,194</u>	<u>(69,194)</u>
Balances July 1, 2010, as restated	<u>\$69,194</u>	<u>-</u>

Required Supplementary Information

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2011

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts	Final to Actual Variance
	Actual	Actual		Original Final	
Revenues:					
Local sources	\$ 2,974,216	85,319	3,059,535	2,970,440	2,970,440
State sources	1,768,574	1,500	1,770,074	1,843,833	1,843,833
Federal sources	258,607	106,820	365,427	275,000	275,000
Total revenues	5,001,397	193,639	5,195,036	5,089,273	5,089,273
Expenditures/Expenses:					
Instruction	2,584,537	-	2,584,537	2,912,970	2,912,970
Support services	1,289,013	-	1,289,013	1,675,500	1,675,500
Non-instructional programs	-	192,332	192,332	250,000	250,000
Other expenditures	993,935	-	993,935	564,630	564,630
Total expenditures/expenses	4,867,485	192,332	5,059,817	5,403,100	5,403,100
Excess (deficiency) of revenues over (under) expenditures/expenses	133,912	1,307	135,219	(313,827)	(313,827)
Other financing sources (uses)	373,073	-	373,073	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	506,985	1,307	508,292	(313,827)	(313,827)
Balance beginning of year	1,079,989	35,492	1,115,481	784,794	784,794
Balance end of year	\$ 1,586,974	36,799	1,623,773	470,967	470,967

See accompanying independent auditor's report.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Note to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2011, expenditures exceeded the amount budgeted in the other expenditures function. The District did not exceed the General Fund unspent authorized budget.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	\$0	\$418	\$418	0.0%	\$2,270	18.4%
2011	Jul 1, 2009	\$0	\$390	\$390	0.0%	\$2,151	18.1%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

Other Supplementary Information

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Speech Trip	\$ 277	261	261	277
Speech	19	17,637	16,374	1,282
TAG	91	-	-	91
Computer Club	317	-	-	317
Vocal Music	171	5,649	4,575	1,245
Music Trip 12	7,953	-	-	7,953
Music Trip 16	391	-	-	391
Band	1,567	13,953	15,474	46
Spanish Trip	1,723	-	-	1,723
Industrial Tech	1,500	-	-	1,500
Band Uniforms	323	1,325	1,320	328
Book Fair	4	2,481	2,485	-
Towel Fees	73	-	-	73
Wrestling Cheerleaders	989	160	274	875
Athletic Fund	497	-	-	497
Athletic Uniforms	254	9,464	9,718	-
Athletics	673	60,338	52,964	8,047
Cross Country	(199)	543	344	-
Golf	(733)	1,846	1,113	-
Boys Basketball	6,080	7,818	13,655	243
Football	2,219	8,298	10,517	-
District Football	-	100	100	-
Baseball	(3,993)	10,718	6,725	-
Boys Track	(1,288)	10,413	9,125	-
Wrestling	1,266	2,009	3,275	-
Girls Basketball	(1,038)	4,813	3,194	581
Volleyball	(648)	9,156	8,508	-
Softball	(2,939)	6,428	3,489	-
Girls Track	(3,953)	6,192	2,239	-
Football Cheerleaders	-	1,041	1,037	4
Basketball Cheerleaders	69	99	-	168
Drill Team	4,240	11,841	12,649	3,432
Interest	166	473	596	43
HS Special Needs	2,827	74	46	2,855
LD Special Needs	40	-	40	-
Annual	4,662	-	848	3,814
Annual General	3,890	60	173	3,777
Annual 10	1,172	296	220	1,248
Annual 11	2,000	7,852	9,574	278
MS Guidance	52	3,030	1,530	1,552
Student Council	123	6,990	6,784	329
Graduated Seniors	657	967	-	1,624

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Class of 2013	-	3,609	1,898	1,711
Class of 2010	1,087	120	1,207	-
Class of 2011	2,432	383	1,694	1,121
Class of 2012	1,147	4,439	4,287	1,299
National Honor Society	-	152	81	71
FFA	7,684	30,846	29,248	9,282
Y Teens	-	2,768	1,118	1,650
Home Ec	63	-	-	63
Charger Supports	-	3,152	-	3,152
PBIS	9,984	6,761	12,039	4,706
	53,891	264,555	250,798	67,648
Less interaccount transfers		(38,186)	(38,186)	
Total	\$ 53,891	226,369	212,612	67,648

See accompanying independent auditor's report.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Net Assets
Private Purpose Trusts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Blomgren Fund	\$ 81,331	9,950	4,119	87,162
Aschenbrenner Trust	72,951	1,167	5,000	69,118
Scholarship Fund	26,003	10,460	36,652	(189)
Marker Fund	30	-	-	30
Huey Korrekt Band Fund	955	-	164	791
Playground Fund	112	-	-	112
Doug DeYoung Memorial	51	-	-	51
Medicaid Reserve	354	-	-	354
Halterman Scholarship	10,000	-	500	9,500
Hakes Scholarship	12,890	238	200	12,928
Nonneman Scholarship	10,000	-	500	9,500
Gilchrist Scholarship	10,000	-	185	9,815
Halder Scholarship	3,630	49	500	3,179
Ludwig Scholarship	14,064	190	1,000	13,254
Hovenden Scholarship	25,000	203	250	24,953
Whitfield Scholarship	3,000	40	60	2,980
Ryon Scholarship	10,000	135	500	9,635
Sindergard Scholarship	671	-	300	371
Wright Scholarship	5,000	-	300	4,700
Hoffman Scholarship	15,000	-	750	14,250
Kees Scholarship	10,000	-	500	9,500
Braunschweig Scholarship	3,387	46	500	2,933
A Peterson Scholarship	-	5,059	-	5,059
B Peterson Scholarship	7,900	-	125	7,775
Total	<u>\$ 322,329</u>	<u>27,537</u>	<u>52,105</u>	<u>297,761</u>

See accompanying independent auditor's report.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Eight Years

	Modified Accrual Basis							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 2,489,662	2,212,250	2,056,942	2,007,594	1,901,617	1,901,986	1,776,631	1,801,554
Tuition	105,710	149,645	136,881	216,609	257,389	250,577	203,539	195,282
Other	378,844	234,606	264,997	288,841	303,441	328,135	878,915	363,338
State sources	1,768,574	1,500,435	1,986,969	1,821,031	1,597,361	1,717,069	1,724,948	1,615,230
Federal sources	258,607	235,795	108,858	136,703	133,014	135,684	147,539	147,745
Total	<u>\$ 5,001,397</u>	<u>4,332,731</u>	<u>4,554,647</u>	<u>4,470,778</u>	<u>4,192,822</u>	<u>4,333,451</u>	<u>4,731,572</u>	<u>4,123,149</u>
Expenditures:								
Instruction	\$ 2,584,537	2,542,751	2,575,166	2,677,060	2,623,664	2,574,498	2,474,264	2,531,073
Support services:								
Student	177,059	227,388	69,395	103,545	99,420	92,788	65,597	86,780
Instructional staff	151,383	79,596	126,727	80,423	93,772	104,835	137,467	75,874
Administration	417,056	389,211	375,257	386,443	471,423	348,812	526,245	429,107
Operation and maintenance of plant	350,846	353,494	372,641	330,495	339,015	352,989	320,242	527,658
Transportation	192,669	102,618	130,398	134,088	261,534	133,601	98,505	82,213
Central support	-	-	-	-	-	-	58,055	55,897
Other expenditures:								
Facilities acquisition	488,909	146,079	1,110,269	205,094	106,123	129,897	698,401	50,803
Debt Service:								
Principal	324,026	215,000	210,000	140,000	135,000	130,000	120,000	115,000
Interest and service charges	28,770	34,055	36,858	40,075	46,650	53,172	60,734	68,085
AEA flowthrough	152,230	151,073	141,358	137,621	132,835	130,755	130,364	131,938
Total	<u>\$ 4,867,485</u>	<u>4,241,265</u>	<u>5,148,069</u>	<u>4,234,844</u>	<u>4,309,436</u>	<u>4,051,347</u>	<u>4,689,874</u>	<u>4,154,428</u>

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants

- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation

- Year Round Tax Planning

- Payroll & Sales Tax Preparation

- IRS Representation

- Monthly/Quarterly Write-Up

- Data Processing Services

- Payroll Preparation

- Financial Statement Preparation

- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience

- Evenings & Saturdays Available by Appointment

- Extended Hours During Tax Season

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Laurens-Marathon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Laurens-Marathon Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 26, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Laurens-Marathon Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Laurens-Marathon Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Laurens-Marathon Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 to be material weaknesses. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified no items which we consider to be significant deficiencies.

202 Central Avenue East
P.O. Box 241
Clarion, IA 50525

Phone: (515) 532-6659
Fax: (515) 532-3677
bruce@frinkcpa.com

Compliance and Other Matters

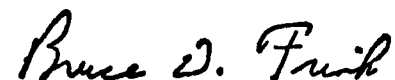
As part of obtaining reasonable assurance about whether Laurens-Marathon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Laurens-Marathon Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Laurens-Marathon Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Laurens-Marathon Community School District and other parties to whom Laurens-Marathon Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Laurens-Marathon Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

March 26, 2012

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2011

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

- I-A-11 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

- I-B-11 Auditor Drafting of the Financial Statements and Related Footnote Disclosures - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy, we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget - Expenditures for the year ended June 30, 2011 exceeded the certified budgeted amount in the other expenditures function. The District did not exceed its unspent authorized budget. The FY12 budget did not meet the 10 day publication notice deadline due to a printing error by the local newspaper. The Pocahontas County Auditor certified the budget to the Iowa Department of Management, noting the violation, but also acknowledging the District's good faith efforts.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget. In regards to publication, it appears as if the District acted properly, however, were forced to republish through no fault of its own.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded. The District will continue to review all publications to ensure accurate publication.

Conclusion - Response accepted.

II-B-11 Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-E-11 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

II-F-11 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Nancy Fuchs, Fuchs Construction Board Vice President	Ground work	\$450
Dr. Brett Fehr Board Member	Employee physical	\$105

These transactions are in accordance with Chapter 279.7A of the Code of Iowa as they did not exceed the \$2,500 limit.

Recommendation - The District should review these expenditures to ensure legal compliance.

Response - We will review these on an annual basis and consult with our attorney when needed.

Conclusion - Response accepted.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:
(continued)

- II-G-11 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-H-11 Certified Annual Report - The Certified Annual Report was timely filed with the Department of Education.
- II-I-11 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-J-11 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-K-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-L-11 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$319,091
Revenues/transfers in:		
Sales tax revenues	\$253,153	
Other local revenues	264	
Capital lease proceeds	<u>373,073</u>	<u>626,490</u>
		945,581
Expenditures/transfers out:		
Equipment	488,700	
Transfers to other funds:		
Debt service fund	<u>100,216</u>	<u>588,916</u>
Ending balance		<u>\$356,665</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F or the Code of Iowa.